

CREATIVE TECHNOLOGY LTD

FIRST QUARTER ENDED 30 SEPTEMBER 2009 FINANCIAL STATEMENTS & DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2009

1 CONSOLIDATED INCOME STATEMENT

	GROUP	
	Three months ended 30 September	
	2009	2008
	US\$'000	US\$'000
Sales, net	72,059	141,230
Cost of goods sold	54,230	110,608
Gross profit	17,829	30,622
Expenses:		
Selling, general and administrative	(14,803)	(29,873)
Research and development	(14,653)	(17,674)
Total expenses	(29,456)	(47,547)
Other income	219	1,793
Other gains (losses), net	10,522	(24,402)
Share of profit (loss) of associated companies	38	(938)
Interest expense	(29)	(77)
Loss before income tax	(877)	(40,549)
Income tax expense	(166)	(277)
Net loss	(1,043)	(40,826)
Attributable to:		
Equity holders of the Company	(1,043)	(40,826)
Minority interests	--	--
Loss per share for loss attributable to equity holders of the Company		
- Basic (US\$ per share)	(0.02)	(0.53)
- Diluted (US\$ per share)	(0.02)	(0.53)

1(a) Net loss is arrived at after accounting for:

	GROUP	
	Three months ended 30	
	September	
	2009	2008
	US\$'000	US\$'000
Depreciation and amortization	(1,851)	(1,685)
Reversal of inventory write-off/write-down /(Write-off/write-down for inventory obsolescence)	2,649	(348)
Impairment in value of financial assets, available-for-sale	(76)	(8,859)
Foreign exchange gain (loss)	5,771	(15,382)
Gain on disposal of investments in associated companies	4,874	-

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP	
	Three months ended 30	
	September	
	2009	2008
	US\$'000	US\$'000
Net loss	(1,043)	(40,826)
Other comprehensive income:		
Net fair value changes of financial assets, available-for-sale	3,932	(1,737)
Total comprehensive income for the period	<u>2,889</u>	<u>(42,563)</u>
Attributable to:		
Shareholders of the Company	2,889	(42,563)
Minority interest	-	-
Total comprehensive income for the period	<u>2,889</u>	<u>(42,563)</u>

3 BALANCE SHEETS

	GROUP		COMPANY	
	30 September 2009 US\$'000	30 June 2009 US\$'000	30 September 2009 US\$'000	30 June 2009 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	253,066	250,551	229,365	218,472
Trade receivables	40,247	42,365	4,651	6,017
Amounts due from subsidiaries	-	-	25,294	43,379
Inventories	40,702	37,600	22,302	18,104
Other current assets	20,571	21,448	4,435	4,934
	354,586	351,964	286,047	290,906
Non-current assets:				
Financial assets, available-for-sale	31,609	27,753	-	-
Other non-current receivables	1,296	977	-	-
Amounts due from subsidiaries	-	-	188,988	186,395
Investments in associated companies	-	1,372	-	-
Investments in subsidiaries	-	-	45,390	45,390
Property and equipment	33,341	33,944	2,083	2,060
Intangible assets	6,628	6,719	-	-
Other non-current assets	29,578	31,693	818	768
	102,452	102,458	237,279	234,613
Total assets	457,038	454,422	523,326	525,519
LIABILITIES AND EQUITY				
Current liabilities:				
Trade payables	32,635	30,296	18,046	18,608
Amounts due to subsidiaries	-	-	16,169	17,174
Accrued liabilities and provisions	67,184	70,014	29,356	28,852
Current income tax liabilities	2,185	2,203	2,000	2,000
Current portion of long term obligations	9	10	8	10
	102,013	102,523	65,579	66,644
Non-current liabilities:				
Amounts due to subsidiaries	-	-	20,515	20,526
Deferred income tax liabilities	29,510	29,510	13,800	13,800
	29,510	29,510	34,315	34,326
Total liabilities	131,523	132,033	99,894	100,970
Equity:				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(21,475)	(21,475)	(21,475)	(21,475)
Fair value reserve	11,083	7,151	-	-
Other reserves	60,749	60,512	33,286	33,049
Retained earnings	8,029	9,072	144,868	146,222
	325,139	322,013	423,432	424,549
Minority interests	376	376	-	-
Total equity	325,515	322,389	423,432	424,549
Total liabilities and equity	457,038	454,422	523,326	525,519

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Financial year ended 30 September	
	2009	2008
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(1,043)	(40,826)
Adjustments for:		
Income tax expense	166	277
Depreciation of property and equipment	1,760	1,685
Amortisation of intangible assets	91	--
Employee share option expense	237	417
Share of (profit) loss of associated companies	(38)	938
Loss on disposal of property and equipment	45	16
Impairment loss of financial assets, available-for-sale	76	8,859
Net impairment loss of investments in associated companies	80	--
Gain on disposal of financial assets, available-for-sale	--	(56)
Gain on disposal of investments in associated companies	(4,874)	--
Foreign exchange (gain) loss	(4,893)	12,315
Dividend income	(65)	(35)
Interest income	(154)	(1,758)
Interest expense	29	77
	<u>(8,583)</u>	<u>(18,091)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	2,118	928
Inventories	(3,102)	(4,446)
Other assets and prepaids	2,585	14,151
Trade payables	2,339	5,223
Accrued liabilities and provisions	(2,854)	(5,206)
Cash used in operations	<u>(7,497)</u>	<u>(7,441)</u>
Interest received	154	1,731
Interest paid	(1)	(74)
Income tax paid	<u>(50)</u>	<u>(189)</u>
Net cash used in operating activities	<u>(7,394)</u>	<u>(5,973)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,204)	(1,688)
Proceeds from sale of property and equipment	2	44
Proceeds from disposal of investments in associated companies	6,189	--
Proceeds from sale of financial assets, available-for-sale	--	109
Purchase of financial assets, available-for-sale	--	(185)
Dividend received	65	35
Net cash provided by (used in) investing activities	<u>5,052</u>	<u>(1,685)</u>
Cash flows from financing activities:		
Proceeds from exercise of ordinary share options	--	10
Purchase of treasury shares	--	(7,773)
Repayments of borrowings	--	(100,000)
Repayments of capital leases	(1)	(3)
Net cash used in financing activities	<u>(1)</u>	<u>(107,766)</u>
Net decrease in cash and cash equivalents	(2,343)	(115,424)
Cash and cash equivalents at beginning of financial year	250,551	409,644
Effects of currency translation on cash and cash equivalents	4,858	(12,347)
Cash and cash equivalents at end of the period	<u>253,066</u>	<u>281,873</u>

5 STATEMENTS OF CHANGES IN EQUITY

5(a) Statements of Changes in Equity for the Group

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total US\$'000	Minority Interests US\$'000	Total Equity US\$'000
FY2010								
Balance at 1 July 2009	266,753	(21,475)	7,151	60,512	9,072	322,013	376	322,389
Purchase of treasury shares	-	-	-	-	-	-	-	-
Utilization of treasury shares for shares issued under employee options plans	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-
Cancellation of treasury shares	-	-	-	-	-	-	-	-
Share option expense	-	-	-	237	-	237	-	237
Total comprehensive income for the year	-	-	3,932	-	(1,043)	2,889	-	2,889
Balance at 30 September 2009	266,753	(21,475)	11,083	60,749	8,029	325,139	376	325,515
FY2009								
Balance at 1 July 2008	300,100	(32,113)	3,377	59,286	146,945	477,595	379	477,974
Shares issued under employee options plans	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	(7,773)	-	-	-	(7,773)	-	(7,773)
Utilization of treasury shares for shares issued under employee options plans	-	10	-	(4)	-	6	-	6
Shares cancellation	(16,473)	16,473	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-
Share option expense	-	-	-	417	-	417	-	417
Total comprehensive income for the year	-	-	(1,737)	-	(40,826)	(42,563)	-	(42,563)
Balance at 30 September 2008	283,627	(23,403)	1,640	59,699	106,119	427,682	379	428,061

5(b) Statements of Changes in Equity of the Company

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
FY2010					
Balance at 1 July 2009	266,753	(21,475)	33,049	146,222	424,549
Shares issued under employee options plans	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
Utilization of treasury shares for shares issued under employee options plans	-	-	-	-	-
Dividends paid	-	-	-	-	-
Cancellation of treasury shares	-	-	-	-	-
Share option expense	-	-	237	-	237
Total comprehensive income for the year	-	-	-	(1,354)	(1,354)
Balance at 30 September 2009	266,753	(21,475)	33,286	144,868	423,432
FY2009					
Balance at 1 July 2008	300,100	(32,113)	31,823	135,148	434,958
Shares issued under employee options plans	-	-	-	-	-
Purchase of treasury shares	-	(7,773)	-	-	(7,773)
Utilization of treasury shares for shares issued under employee options plans	-	10	(4)	-	6
Cancellation of treasury shares	(16,473)	16,473	-	-	-
Dividends paid	-	-	-	-	-
Share option expense	-	-	416	-	416
Total comprehensive income for the year	-	-	-	(21,685)	(21,685)
Balance at 30 September 2008	283,627	(23,403)	32,235	113,463	405,922

5(c) CHANGES IN THE COMPANY'S SHARE CAPITAL

Issued and paid up capital

As at 30 September 2009, the Company's issued and paid up capital excluding treasury shares comprises 68,891,468 (30 June 2009: 68,891,468) ordinary shares.

Employee share options plans

During the first quarter of FY2010, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Option Plan (Q1/FY2009: nil).

As at 30 September 2009, there were 6,986,895 (30 September 2008: 9,845,732) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plans.

Treasury shares

During the first quarter of FY2010, the Company did not re-issue any treasury shares pursuant to the Employee Share Options Plans (Q1/FY2009: 2,310).

As at 30 September 2009, 6,108,532 (30 September 2008: 5,152,332) shares were held as treasury shares.

During the first quarter of FY2010, the Company did not buy back or cancel any ordinary shares. In the first quarter of FY2009, the Company bought back 1,800,000 ordinary shares at an average price of US\$4.32 per share and held them as treasury shares. 3,625,858 treasury shares were cancelled in the first quarter of FY2009.

6 AUDIT

The figures have not been audited or reviewed by our auditors.

7 AUDITORS' REPORT

Not applicable.

8 ACCOUNTING POLICIES

Except as disclosed in Item 9 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2009.

9 CHANGES IN ACCOUNTING POLICIES

With effect from 1 July 2009, the Group adopted the following new/amended FRS which are relevant to the Group's operations:

FRS 1(R)	Presentation of Financial Statements
FRS 107	Improving Disclosures about Financial Statements

The adoption of the above FRS does not have any significant impact on the financial statements.

10 NET ASSET VALUE

	<u>GROUP</u>		<u>COMPANY</u>	
	<u>30 September</u>	<u>30 June</u>	<u>30 September</u>	<u>30 June</u>
	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Net asset value per ordinary share based on issued capital at the end of the financial year	4.73	4.68	6.15	6.16

11 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the first quarter of FY2010 decreased by 49% compared to the same quarter in FY2009. The decrease in net sales was primarily a result of lower revenues from digital audio players. The lower sales were primarily due to the impact of the global economic downturn and the Group's decision to consolidate certain businesses in order to focus on specific markets that provide best opportunities to improve business going forward.

Gross Profit

Gross profit margin was 25% in the first quarter of FY2010 compared to 22% in the first quarter of FY2009. Gross profit margin in the first quarter of FY2010 at 25% was consistent with the mix of products sold during the quarter. Gross profit margin in the first quarter of FY2009 was lower at 22% due to a higher percentage of sales coming from digital audio players which have lower gross profit margin.

Net Loss

Net loss for the first quarter of FY2010 was US\$1.0 million compared to US\$40.8 million in the first quarter of FY2009.

Following the restructuring efforts in the previous year to reduce operating costs, and in line with the decrease in sales, selling, general and administrative expenses in the first quarter of FY2010 decreased by 50% compared to the first quarter of FY2009.

Research and development expenses in the first quarter of FY2010 decreased by 17% compared to the first quarter of FY2009. There were smaller reductions in research and development expenses as the Group needs to continue to invest in product development in areas that are strategic to the Group, cutting back development spending only in product areas that are not strategic going forward.

Other gains of US\$10.5 million in the first quarter of FY2010 comprised mainly of a US\$4.9 million gain on disposal of investment in an associated company and foreign exchange gains of US\$5.8 million. In the first quarter of FY2010, the Group has disposed its entire interest in an associated company, Qala Singapore Pte Ltd, an internet service provider, for a cash consideration of US\$6.2 million.

Other losses of US\$24.4 million in the first quarter of FY2009 comprised mainly of US\$8.9 million impairment loss of financial assets, available-for-sale following the onset of the global financial crisis during that quarter, and foreign exchange losses of US\$15.4 million.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net income (loss). The exchange differences were mainly due to the cash and cash equivalent balances held by the Group. Besides US dollar, cash and cash equivalent were held mainly in Euro, Singapore dollar, British Pound and Japanese Yen. In the first quarter of FY2010, these currencies appreciated against US dollar while they declined significantly against the US dollar in the first quarter of FY2009.

BALANCE SHEETS

The increased in financial assets, available-for-sale as at 30 September 2009 was due to the fair value gain on revaluation of the investments. There were no other material fluctuations in the other major components of the Balance Sheets.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In the first quarter of FY2009, the Group repaid the remaining balance of the US\$100 million syndicated term loan.

12 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2009.

13 PROSPECTS

Going forward the Group will need to continue to invest in product development, particularly for the Zii Platform. The Group will also intensify its focus on marketing the Zii Platform. As a result, operating expenses will increase in the coming quarters. The overall market for the Group's current products remains difficult and unpredictable but the Group is targeting to reduce its operating losses in the current quarter.

14 DIVIDEND

No dividends have been recommended in the first quarter of FY2010 and no dividends were recommended or declared for the same period last year.

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
28 OCTOBER 2009

CONFIRMATION BY THE BOARD

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the first quarter ended 30 September 2009 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director